Royal London Credit Funds

Fund Manager Commentary

31 January 2025

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The purpose of this report is to provide an update on the Royal London Fixed Income Funds. The report has been produced by Royal London Asset Management. The report starts with a performance summary followed by Fund Manager commentary for each of the Funds. All data within this report is at the report date unless otherwise stated.

Contents

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ASSET MANAGEMENT

Performance

	1 month (%)	Rolling 12 months (%)
RL Corporate Bond Fund Z Inc	**1.23**	**6.96**
iBoxx Sterling Non-Gilts All Maturities Index	1.11	3.79
IA Sterling Corporate Bond Sector	1.01	4.60
RL Ethical Bond Fund Z Inc	**1.09**	**6.35**
iBoxx Sterling Non-Gilts All Maturities Index	1.11	3.79
IA Sterling Strategic Bond Sector	0.91	5.66
RL Global Bond Opportunities Fund Z Inc	**0.98**	**9.62**
IA Global Mixed Bond Sector	1.03	4.39
RL Investment Grade Short Dated Credit Fund Z Inc	**0.95**	**6.47**
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.91	5.15
IA Sterling Corporate Bond Sector	1.01	4.60
RL Short Duration Credit Fund Z Inc	**1.06**	**8.59**
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.91	5.15
IA Sterling Strategic Bond Sector	0.91	5.66
RL Sterling Credit Fund Z Inc	**1.24**	**7.19**
iBoxx Sterling Non-Gilts All Maturities Index	1.11	3.79
IA Sterling Corporate Bond Sector	1.01	4.60
RL Sterling Extra Yield Bond Fund A Inc	**1.22**	**10.74**
RL Sterling Extra Yield Bond Fund B Inc	**1.22**	**10.37**
RL Sterling Extra Yield Bond Fund Y Inc	**1.25**	**11.24**
RL Sterling Extra Yield Bond Fund Z Inc	**1.24**	**11.03**
IA Sterling Corporate Bond Sector	1.01	4.60
IA Sterling High Yield Sector	1.06	8.92
IA Sterling Strategic Bond Sector	0.91	5.66

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

Source: RLAM and Morningstar, as at 31 January 2025. Returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically. All IA sector performance shown is for the median.

Credit Market Review

Market highlights – sterling investment grade credit

The sterling investment grade market (iBoxx) produced positive returns in January, with a return of 1.11%. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightened over the month to 0.81% from 0.86%.

Investment grade sterling primary issuance picked up in January from the typically slow December, but was down year on year. Total issuance was £6.3bn, up from December's £1.2bn, but behind the £8.0bn issued the previous year. New issuance was dominated by financials, with £4.5bn of the total issuance coming from the sector.

In sterling investment grade markets, returns were broad based with no sector seeing a negative return. Relatively, the insurance, real estate, social housing and structured sectors outperformed the rest of the market.

Global government bond yields were broadly flat in January, but this belies the volatility seen, while German bund yields saw a rise following the ECB's decision to cut interest rates and a rise in eurozone inflation. US treasury 10-year yields fell slightly to 4.55% from 4.57%, while German bund 10-year yields rose to 4.43% from 2.36%. In the UK, 10-year gilt yields fell slightly to 4.54% from 4.57%. The FTSE UK Conventional Gilt All-Stocks index returning 0.80%.

Royal London Corporate Bond Fund

Portfolio commentary

The fund posted positive returns in January and was ahead of its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index.

Apart from shorter maturities that were more impacted by the market's pricing in of rate cuts by the Bank of England over the next year, UK government bond yields were broadly flat in January while credit spreads tightened. The sterling credit market outperformed gilts over the month.

The fund's outperformance was driven by sector allocation, with our overweight position in structured bonds a particular highlight, and our underweight supranationals position also highly beneficial. Our stock selection also contributed to performance, with our banking bonds performing well - with subordinated bonds issued by Close Brothers and Abrdn among the standouts.

New issuance was down on the previous year in January, but the fund remained active in seeking out new issues. In financials, we added a new subordinated euro-denominated issue from Dutch financial services firm Achmea. We also added a sterling issue from French lender Credit Agricole and took part in new senior issues from Leeds Building Society and Nationwide Building Society.

Outside of financials, we added a new 2045 bond from regular issuer Motability Operations, the organisation in charge of delivering the Motability Scheme, enabling people receiving a qualifying disability allowance to lease a vehicle at cheaper terms compared to alternatives. It provides significant value to people with a qualifying disability or illness, improving mobility for its 800,000 customers.

In the secondary market, we added to our position in Saltaire Finance, a special purpose vehicle, which was established in connection with the management and delivery of the UK's Affordable Homes Guarantee Scheme, with bonds offering a yield premium to gilts despite a UK government guarantee.

Investment outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields. Markets started last year expecting that falling inflation would lead to a number of rate cuts that would drag the entire UK curve lower. Although we got two rate cuts, these really only impacted the short end of the curve. Longer-dated yields were pushed higher, first because inflation did not come down as expected – with the Trump presidency widely seen as more inflationary - and second because issuance is going to be higher than expected. As a result, UK 30-year gilt yields are now at 25-year highs.

UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets.

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Shalin Shah

Senior Fund Manager

CITYWIRE AAA

Matt Franklin

Fund Manager

Royal London Corporate Bond Fund continued

However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the ‘mechanised’ approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. As ever, the risks inherent in our investment grade credit portfolios are mitigated by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark, achieved with superior downside protections, will generate outperformance.

Key views within the fund

Well diversified, with over 300 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall fund performance of any deterioration in the creditworthiness of an individual holding.

A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Duration longer than the benchmark, which has been increased as yields have risen. Interest rate sensitivity is broadly neutral when factoring in a number of bonds which have theoretical duration but are not as interest rate sensitive.

An overweight position in subordinated financial debt, where we believe yields are attractive.

Orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

Royal London Ethical Bond Fund

Portfolio commentary

The fund posted positive returns in January, performing broadly in line with its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index.

Apart from shorter maturities that were more impacted by the market's pricing in of rate cuts by the Bank of England over the next year, UK government bond yields were broadly flat in January while credit spreads tightened. The sterling credit market outperformed gilts over the month.

The fund credit allocation was the main positive over the month. By sector allocation, our overweight position in structured bonds was a particular highlight with our underweight supranationals position also highly beneficial. However, this was offset by stock selection, with a number of structured bonds in the water sector the main negatives.

New issuance was down on the previous year in January, but the fund remained active in seeking out new issues.

In financials, we added a sterling issue from French lender Credit Agricole as well as a new issue from Leeds Building Society.

Outside of financials, we added a new 2045 bond from regular issuer Motability, who help disabled people and their families lease cars, scooters or wheelchairs.

Investment outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields – where we seen UK 30-year gilt yields hit 25-year highs at the end of the year. UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads now back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far.

In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for downgrade risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within sector allocation and stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

CITYWIRE AAA

Paola Binns

Head of Credit

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Eric Holt

Senior Fund Manager

Royal London Ethical Bond Fund continued

Key views within the fund

The fund is diversified in order to improve portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

The fund has a significant underweight position in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Duration is broadly in line with the benchmark.

The fund has an overweight position in subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards secured bonds in the asset-rich property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

Royal London Global Bond Opportunities Fund

Market highlights

	Total return (%)	Spread at end of month (basis points)	Spread change over month (basis points)
HY global non-financial corps ICE BofA ML global non-financial high yield index	1.21	301	-19
AT1 ICE BofA ML contingent capital index	1.40	252	-25
Emerging market ICE BofA ML	1.18	347	-15
HY global non-financial hybrid corps ICE BofA ML global hybrid non-financial high yield index	0.52	200	-8
IG global non-financial hybrid corps ICE BofA ML global hybrid non-financial corporate index	0.72	166	-11
Dollar investment grade corporate bonds ICE BofA ML US corporate index	0.61	82	0
Sterling investment grade corporate bonds ICE BofA ML sterling corporate and collateralised index	1.17	92	-4
Euro investment grade corporate bonds ICE BofA ML euro corporate and Pfandbriefe index	0.47	88	-10

Source: RLAM

Donald Trump was inaugurated as US president towards the end of the month and in his first few days he threatened tariffs of up to 25% on Canada and Mexico and a 10% tariff on Chinese imports as early as February 1st. He also said the EU treats the US "very, very badly…so they are going to be in for tariffs…" The Federal Reserve kept rates on hold as expected, signalling that they weren't in a rush to cut: "With our policy stance significantly less restrictive…and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance." Chair Jerome Powell still described policy as "meaningfully restrictive" but also noted elevated uncertainty across several areas of government policy. Fourth quarter GDP growth at 2.3% quarter on quarter annualised, was weaker than expected, but the details less so (including a 4.2% rise in personal consumption).

In the euro area, political uncertainty was somewhat less of a focus in January (when attention turned to the US and the start of the Trump presidency). As expected, the European Central Bank cut interest rates by 25bps, bringing the deposit rate to 2.75%. They still see the disinflation process as "well on track". Although domestic inflation "remains high" they interpret

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Royal London Global Bond Opportunities Fund continued

this as a delayed reaction to past high inflation. President Christine Lagarde said that policy is currently restrictive and said it was premature to have a discussion about the point where they have to stop. December CPI (released in January) rose, with headline CPI at 2.4% year on year after 2.2%, remaining above the ECB's 2% target. Core CPI remained 2.7% year on year, but services inflation fell a touch – back to 3.9% year-on-year again.

Data released in January in the UK painted a sluggish picture of economic activity with labour market-related surveys showing significant signs of deterioration over the past couple of months. CPI inflation was a touch lower than expected, but remained above the Bank of England's 2% target, at 2.5% year on year after 2.6%. Core inflation and services inflation were also lower than expected, the former falling to 3.2% year on year, the latter to a (still elevated) 4.4% year-on-year. November GDP growth (released in January) was a weaker than expected 0.1% month on month, leaving rolling quarter on quarter GDP growth at zero.

Global government bond yields were broadly flat in January, but this belies the volatility seen, while German bund yields saw a rise following the ECB's decision to cut interest rates and a rise in eurozone inflation. US treasury 10-year yields fell slightly to 4.55% from 4.57%, while German bund 10-year yields rose to 4.43% from 2.36%. In the UK, 10-year gilt yields fell slightly to 4.54% from 4.57%. The FTSE UK Conventional Gilt All-Stocks index returning 0.80%.

All markets saw positive returns for the month. Investment grade credit spreads ended the period marginally tighter in euro and UK markets, and were flat in the US. Sub investment grade spreads were also generally tighter.

Portfolio commentary

The fund recorded a positive net return in January, with strong returns across the portfolio including notably. While the fall in government bond yields was a tailwind for performance, the fund outperformed most areas of the fixed income market, including high yield, sterling investment grade and AT1 bonds.

New issuance was down on the previous year in January, but the fund remained active in seeking out value in both new issue and secondary markets.

In financials, we added a new subordinated euro-denominated issue from Dutch financial services firm Achmea, while in the secondary market, we added a subordinated euro bonds from Bank of Nova Scotia and AT1 US dollar bonds from KBC – all at very attractive yields.

Other activity was across diversified sectors, including adding a new issue from Italian utility ENEL, and in the secondary market, bonds from Spanish communications giant Telefonia, secured bonds from UK pub operator Punch and US dollar bonds from energy services provider Yinson.

Royal London Global Bond Opportunities Fund continued

Investment outlook

Perhaps the most unexpected aspect of fixed income markets in 2024 was the rise in yields. Markets started the year expecting that falling inflation would lead to a number of rate cuts that would drag government bond yields lower. In the event, although we got rate cuts, these really only impacted the short end – with longer yields pushed higher because inflation did not come down as expected and Trump presidency is widely seen as more inflationary. While there has been volatility in government bond yields in the first weeks of 2025, the overall impact has been small.

Investment grade markets partially mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. As this point, with these back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global economy, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that investment grade all-in yields remain attractive but the relative attraction between government bond yield and credit spread has changed, with a larger component of the yield being sought from government bonds. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

Royal London Investment Grade Short Dated Credit Fund

Portfolio commentary

The fund posted positive returns in January and was ahead of its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index.

Apart from shorter maturities that were more impacted by the market's pricing in of rate cuts by the Bank of England over the next year, UK government bond yields were broadly flat in January while credit spreads tightened. The sterling credit market outperformed gilts over the month.

The fund's outperformance was driven by our credit allocation. By sector allocation, our overweight position in structured bonds was a particular highlight. Our stock selection also contributed to performance, with our banking bonds performing well - with perpetual bonds from Close Brothers a standout.

New issuance was down on the previous year in January, but the fund remained active in seeking out new issues.

In financials, we added a new issue from Barclays and also added a new sterling issue from French lender Credit Agricole. We also took part in a new issues from Leeds Building Society and a floating rate note from Nationwide Building Society.

In the water sector, an area where we continue to see value, we added a new issue Yorkshire Water, with the bonds seeing good spread levels following widening in the sector.

In the secondary market, we added to our position in Tesco Property where we see good value for a secured bond and attractive spread for investment grade risk, while adding security given the assets backing these bonds.

In sales, we trimmed our position in Heathrow Funding. We felt the spread did not reflect the level of debt subordination so were happy to reduce the position.

Investment outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields. Markets started last year expecting that falling inflation would lead to a number of rate cuts that would drag the entire UK curve lower. Although we got two rate cuts, these really only impacted the short end of the curve. Longer-dated yields were pushed higher, first because inflation did not come down as expected – with the Trump presidency widely seen as more inflationary - and second because issuance is going to be higher than expected. As a result, UK 30-year gilt yields are now at 25-year highs.

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Royal London Investment Grade Short Dated Credit Fund continued

UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. As ever, the risks inherent in our investment grade credit portfolios are mitigated by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark, achieved with superior downside protections, will generate outperformance.

Key views within the fund

The fund is well diversified in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

It has a minimal weighting in supranational bonds, as we expect corporate debt to outperform over the medium term.

Fund duration was marginally longer than the benchmark at month end.

It has an overweight position in subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards structured debt, which benefits from a claim on assets and cashflows; secured issues in the asset-rich property and social housing sectors; and covered bonds (i.e. senior bank debt benefiting from a first claim on a specified over-collateralised pool of assets).

Royal London Short Duration Credit Fund

Portfolio commentary

The fund posted positive returns in January and was ahead of its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index.

Apart from shorter maturities that were more impacted by the market's pricing in of rate cuts by the Bank of England over the next year, UK government bond yields were broadly flat in January while credit spreads tightened. The sterling credit market outperformed gilts over the month.

The fund's outperformance was driven by our credit allocation. By sector allocation, our overweight position in structured bonds was a particular highlight. Our stock selection also contributed to performance, with our banking bonds performing well - with perpetual bonds from Close Brothers and Abrdn among the standouts.

New issuance was down on the previous year in January, but the fund remained active in seeking out new issues.

In financials, we added a new subordinated euro-denominated issue from Dutch financial services firm Achmea. We also added a sterling issue from French lender Credit Agricole and took part in a new issue from Leeds Building Society.

In the water sector, an area where we continue to see value, we added a new issue Yorkshire Water, with the bonds seeing good spread levels following widening in the sector.

In the secondary market, we added to our position in Tesco Property where we see good value for a secured bond and attractive spread for investment grade risk, while adding security given the assets backing these bonds.

In sales, we trimmed our position in Heathrow Funding. We felt the spread did not reflect the level of debt subordination so were happy to reduce the position.

Investment outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields. Markets started last year expecting that falling inflation would lead to a number of rate cuts that would drag the entire UK curve lower. Although we got two rate cuts, these really only impacted the short end of the curve. Longer-dated yields were pushed higher, first because inflation did not come down as expected – with the Trump presidency widely seen as more inflationary - and second because issuance is going to be higher than expected. As a result, UK 30-year gilt yields are now at 25-year highs.

UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets.

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Senior Fund Manager

Royal London Short Duration Credit Fund continued

However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the ‘mechanised’ approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. As ever, the risks inherent in our investment grade credit portfolios are mitigated by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark, achieved with superior downside protections, will generate outperformance.

Royal London Sterling Credit Fund

Portfolio commentary

The fund posted positive returns in January and was ahead of its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, over the month.

Apart from shorter maturities that were more impacted by the market's pricing in of rate cuts by the Bank of England over the next year, UK government bond yields were broadly flat in January while credit spreads tightened. The sterling credit market outperformed gilts over the month.

The fund outperformance was driven by our credit allocation. By sector allocation, our overweight position in structured bonds was a particular highlight with our underweight supranationals position also highly beneficial. Our stock selection also contributed to performance, with our banking bonds performing well - with perpetual bonds from Close Brothers and Abrdn among the standouts.

New issuance was down on the previous year in January, but the fund remained active in seeking out new issues.

In financials, we added a new subordinated euro-denominated issue from Dutch financial services firm Achmea and a sterling issue from French lender Credit Agricole.

Outside of financials, we added a new 2045 bond from regular issuer Motability, who help disabled people and their families lease cars, scooters or wheelchairs.

In the water sector, an area where we continue to see value, we added a new issue Yorkshire Water, with the bonds seeing good spread levels following widening in the sector.

In the secondary market, we switched out of Northumbrian Water into Cadent Finance. We were happy to take profit on a Northumbrian bond that has performed well, while moving into Cadent, the UK's largest gas distribution network.

Investment outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields. Markets started last year expecting that falling inflation would lead to a number of rate cuts that would drag the entire UK curve lower. Although we got two rate cuts, these really only impacted the short end of the curve. Longer-dated yields were pushed higher, first because inflation did not come down as expected – with the Trump presidency widely seen as more inflationary - and second because issuance is going to be higher than expected. As a result, UK 30-year gilt yields are now at 25-year highs.

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Royal London Sterling Credit Fund continued

UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. With spreads back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. As ever, the risks inherent in our investment grade credit portfolios are mitigated by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark, achieved with superior downside protections, will generate outperformance.

Key views within the fund

Well diversified, with around 350 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Fund duration was broadly in line with the benchmark at month end.

Orientated towards subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and structured bonds, which benefit from a claim on assets and cashflows.

Royal London Sterling Extra Yield Fund

Portfolio commentary

In January the fund recorded returns of 1.22%, 1.22%, 1.25% and 1.24% respectively for the A, B, Y and Z class shares. These complement the returns for 2024 of 10.59%, 10.15%, 11.09% and 10.88% respectively for these share classes.

January was an exceptionally volatile month for bond markets. UK government bonds prices fell sharply in the early part of the month, with concerns on inflation pressures, uncertainty on political strategy in the US and political tactics in the UK, and the magnitude of UK gilt issuance each weighing on market sentiment. In the latter part of the month markets rebounded sharply as investor focus switched to the subdued rate of economic growth, the corresponding potential for lower interest rates and the robust level of investor liquidity. Over the course of the month the price of the 30-year gilt range from 84.0 to 89.1, a yield range of 5.48% to 5.09%. Over the month as a whole the 30-year gilt moved up from 88.4 to 88.8 in price and from 5.14% to 5.11% while the 5-year gilt moved from 99.0 to 99.6 in price and from 4.38% to 4.21% in yield. Gilts posted a 0.84% index return in January, while sterling investment grade corporate bonds' index return was 1.10% for the month, the higher return reflecting primarily a further tightening in the average yield differential over reference gilts, down from 0.80% to 0.77% in the month. European sub-investment grade bonds and global sub-investment grade bonds, the latter dominated by US dollar issues, posted index returns of 0.60% and 1.19% respectively in January.

While the prices of most of the holdings in the fund rose in the month, complemented by strong income accrual, there were some notable sector and stock performances. Financials generally performed with insurers Esure and Just Group up around 4% in price in the month, with asset manager Abrdn and Rabobank also up a similar amount. Bonds of specialist bank Close Brothers Group were up 10% in the month, rebounding strongly after being subdued on concerns around their exposure to the motor finance business, while bonds of consumer finance company Vanquis were up 8%. Within the water sector, bonds of Anglian Water were up 4% in the wake of December's 5-year price determination for the sector. In contrast bonds of Thames Water weakened in January, after moving up in price during the course of the fourth quarter of 2024, as the process of stabilising the company's finances continues. Within the energy sector shares of services business DOF and of oil and gas production business Shamaran, each received under terms of restructurings of these companies, were up 13% and 17% respectively. Finally, shares of aircraft leasing business Amadeo Air Four Plus were up 10% on news that the company was distributing, in addition to regular quarterly dividends, accumulated cash by the repurchase at a premium to the market price of one seventh of the outstanding shares.

Rachid Semaoune

Senior Fund Manager

Eric Holt

Senior Fund Manager

Royal London Sterling Extra Yield Fund continued

The fund participated selectively in the steady flow of new issues at the start of the new year – investments included Dutch financial services group Achmea, which traded well after issue and were sold to crystallise a capital gain in the month, Scandinavian business services group SuperOffice, denominated in Norwegian krone and offering an initial yield of 8.25%, and most notably Motability, the A credit rated business offering car leasing under the UK's mobility allowance scheme – the 20-year bonds were issued near the high point of gilt yields at a yield of 6.25% and had risen over 4% in price by the end of the month. Market purchases in the month included bonds of energy businesses Bluenord, DNO and Samos Energy, financials Barclays and Investec, and agricultural company REA. Sales in the month included senior 8 ⅝% 2028 bonds of Principality Building Society, issued 18 months earlier and sold at a price above 108, bonds of vehicle fleet management business Abax, and in the final days of the month shares in oil service group DOF after their strong rise in price over the month. Fund liquidity was also increased by the return of capital from aircraft leasing business Doric Nimrod Air 2, and the partial repayment from excess cash flow of bonds of oil company Shamaran under the bond's set terms. Finally, activity in the month in short-dated gilts reflected liquidity management.

Key views within the fund

The fund's objective is to achieve a high level of income by seeking attractive investments across a broad spectrum of fixed income opportunities, encompassing investment grade, sub-investment grade and unrated bonds.

The fund mitigates stock-specific risk by holding a diversified portfolio of investments, so that no individual investment can in isolation have an undue impact on overall performance. In addition, where possible within the yield objective of the fund, investments are focused on bonds where risk is mitigated by structure or a claim on assets or cashflows.

Disclaimers

Important information

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RL Corporate Bond Fund, RL Investment Grade Short Dated Credit Fund and RL Sterling Credit Fund.

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Risk and Warnings

Investment Risk

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Charges from capital risk

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Credit risk

Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk

Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

EPM techniques risk

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Derivative risk

The fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

Emerging markets risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Exchange rate risk

Changes in currency exchange rates may affect the value of your investment.

Liquidity risk

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Government and public securities risk

The Fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

Interest rate risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

Sub-investment grade investment risk

Lower rated investment grade securities may have large uncertainties or major risk exposures to adverse conditions. The market value of securities in lower rated investment grade categories is more volatile than that of higher quality securities, and the markets in which these securities are traded are less liquid than those in which higher rated securities are traded.

Unrated bond risk

Non-rated bonds may have the characteristics of either investment or sub-investment grade bonds. Market activity in unrated securities and instruments may be low for a considerable period of time and this may impact on liquidity.

Performance

Cumulative (%) / Annualised (%)

		3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a)	5 Years (p.a)
RL Corporate Bond Fund Z Inc	Gross	2.14	3.12	7.33	3.08	8.26	1.01	1.60
RL Corporate Bond Fund Z Inc	Net	2.05	2.94	6.96	1.89	6.14	0.62	1.20
RL Ethical Bond Fund Z Inc	Gross	2.05	2.90	6.77	-0.22	2.84	-0.07	0.56
RL Ethical Bond Fund Z Inc	Net	1.94	2.70	6.35	-1.41	0.81	-0.47	0.16
RL Global Bond Opportunities Fund Z Inc	Gross	2.49	5.14	10.08	15.69	25.82	4.97	4.70
RL Global Bond Opportunities Fund Z Inc	Net	2.39	4.93	9.62	14.01	22.74	4.46	4.18
RL Investment Grade Short Dated Credit Fund Z Inc	Gross	2.06	3.16	6.73	7.99	10.34	2.59	1.99
RL Investment Grade Short Dated Credit Fund Z Inc	Net	2.00	3.04	6.47	7.21	9.03	2.35	1.74
RL Short Duration Credit Fund Z Inc	Gross	2.48	3.89	8.93	12.46	16.84	3.99	3.16
RL Short Duration Credit Fund Z Inc	Net	2.40	3.73	8.59	11.42	15.05	3.67	2.84
RL Sterling Credit Fund Z Inc	Gross	2.24	3.33	7.56	2.05	5.75	0.68	1.12
RL Sterling Credit Fund Z Inc	Net	2.15	3.15	7.19	0.99	3.92	0.33	0.77
RL Sterling Extra Yield Bond Fund A Inc	Gross	3.11	5.64	11.68	20.05	28.89	6.27	5.20
RL Sterling Extra Yield Bond Fund A Inc	Net	2.89	5.19	10.74	17.06	23.61	5.39	4.33
RL Sterling Extra Yield Bond Fund B Inc	Gross	3.12	5.65	11.69	20.06	28.88	6.28	5.20
RL Sterling Extra Yield Bond Fund B Inc	Net	2.90	5.10	10.37	15.48	20.68	4.91	3.83
RL Sterling Extra Yield Bond Fund Y Inc	Gross	3.11	5.64	11.69	20.05	28.90	6.27	5.20
RL Sterling Extra Yield Bond Fund Y Inc	Net	3.01	5.43	11.24	18.62	26.36	5.85	4.79
RL Sterling Extra Yield Bond Fund Z Inc	Gross	3.11	5.65	11.68	20.05	28.90	6.28	5.20
RL Sterling Extra Yield Bond Fund Z Inc	Net	2.96	5.34	11.03	17.98	25.23	5.66	4.60

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.
Source: RLAM as at 31 January 2025 unless otherwise stated. All figures are mid-price to mid-price in GBP.

Performance

Year on year performance (%)

		31/12/2023-31/12/2024	31/12/2022 – 31/12/2023	31/12/2021 – 31/12/2022	31/12/2020 – 31/12/2021	31/12/2019 – 31/12/2020
RL Corporate Bond Fund Z Inc	Gross	5.54	11.99	-15.74	1.43	8.55
RL Corporate Bond Fund Z Inc	Net	5.17	11.53	-16.08	1.01	8.11
RL Ethical Bond Fund Z Inc	Gross	5.20	10.14	-16.75	-0.07	8.33
RL Ethical Bond Fund Z Inc	Net	4.78	9.70	-17.08	-0.47	7.89
RL Global Bond Opportunities Fund Z Inc	Gross	10.14	10.40	-6.64	7.08	3.63
RL Global Bond Opportunities Fund Z Inc	Net	9.67	9.83	-7.13	6.52	3.13
RL Investment Grade Short Dated Credit Fund Z Inc	Gross	5.63	8.63	-7.54	-0.05	3.79
RL Investment Grade Short Dated Credit Fund Z Inc	Net	5.38	8.37	-7.76	-0.29	3.54
RL Short Duration Credit Fund Z Inc	Gross	7.70	9.75	-6.60	1.51	4.06
RL Short Duration Credit Fund Z Inc	Net	7.37	9.41	-6.89	1.20	3.74
RL Sterling Credit Fund Z Inc	Gross	5.89	11.39	-16.56	0.94	8.03
RL Sterling Credit Fund Z Inc	Net	5.52	11.00	-16.85	0.59	7.65
RL Sterling Extra Yield Bond Fund A Inc	Gross	11.52	10.29	-4.36	8.35	1.69
RL Sterling Extra Yield Bond Fund A Inc	Net	10.59	9.37	-5.16	7.45	0.87
RL Sterling Extra Yield Bond Fund B Inc	Gross	11.52	10.29	-4.37	8.34	1.70
RL Sterling Extra Yield Bond Fund B Inc	Net	10.15	8.81	-5.65	6.89	0.35
RL Sterling Extra Yield Bond Fund Y Inc	Gross	11.54	10.27	-4.37	8.36	1.69
RL Sterling Extra Yield Bond Fund Y Inc	Net	11.09	9.83	-4.75	7.93	1.31
RL Sterling Extra Yield Bond Fund Z Inc	Gross	11.53	10.29	-4.37	8.36	1.70
RL Sterling Extra Yield Bond Fund Z Inc	Net	10.88	9.65	-4.92	7.73	1.13

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Source: RLAM as at 31 January 2025 unless otherwise stated. All figures are mid-price to mid-price in GBP.